

Testimony of Gary M. Melow,
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on Michigan Renewable Portfolio Standards

Before the Michigan House Energy and Technology Committee
The Honorable Rep. Frank Accavitti, Chairman
December 12, 2007

Thank you Mr. Chairman and members of the committee for this opportunity to speak to you this morning.

I am the coordinator for Michigan Biomass and am speaking on behalf of Michigan's existing wood fired power plants. These six Qualified Facilities have been generating power since 1988. They have a combined 97 years of service. Each year we offset more than a million MWH of coal power and nearly 1.6 million tons of greenhouse gas emissions. These six plants total 162 MW of installed capacity, which represents about half of the state's total existing renewable generating capacity. In hard numbers from the DOE in 2006, these six plants totaled more than 30% of the state's total renewable generation, second only to hydro at 32%.

Our fuel feedstock is waste wood generated at every stage of resource utilization: harvest residue, sawmill wastes, manufacturing wood waste, and recycled wood such as crates and pallets. We provide these waste generators an environmentally sound, no-cost disposal option, and in some cases, provide a revenue stream.

These power plants have been operating for up to 19 years without consideration of the environmental benefits that are driving today's renewable energy market. We believe an RPS is good for the people of the State of Michigan for all the reasons that have been presented to you. However, we stand to lose significantly in the new renewable energy market because of the constraints on our power purchase agreements. At risk are more than 1000 direct and indirect jobs and the \$40 million we inject annually into mostly rural economies through payroll, property taxes and fuel purchases.

The new renewable energy market needs to have a level playing field so we can continue to support these jobs and communities, and provide the state with firm, reliable renewable power. Developing an energy marketplace that could eliminate a third of the state's existing renewable output would be a step backwards.

Here's our situation: All of these facilities are under long-term PURPA contracts with Consumers Energy signed before most people knew what an RPS was. The price we're paid for our power is based exclusively on the avoided cost of coal. These contracts 1) have no mechanism to recover the increase cost of fuel that will likely result from a new, robust renewable energy market, and 2) are silent on the ownership of the green attributes of the power we generate, which could restrict our participation in the market for RECs.

Energy production has always been the lowest value use of the state's wood fiber resources. The cost, quality and availability of wood fuel hinges on the viability of the wood fiber industry. There have been three major mill closures in Michigan in the past two years, and one in nearby Canada, and the waste wood supply has dwindled, driving up costs. The new green energy market has the capability of putting added pressure on this resource. We would be at a distinct disadvantage because our fuel costs are non-bypassable. New wood-energy projects can build these new economics into their new power purchase agreements and out compete us for the available fuel supply. The utilities are also looking at wood for co-firing. If Michigan's coal plants were to co-fire at a mere 3% heat input it would more than double the demand for wood fuel.

They have the ability to pass these costs onto their customers. We do not.

It is clear to us that the RPS will dramatically increase demand for a limited fuel supply resulting in higher fuel costs that new participants in the new energy market can accommodate. Existing facilities under existing contracts cannot.

Also, we need to be able to participate in a robust REC market. First, we need assurance that we own the RECs. Our contracts are silent on REC ownership, and we need state law that says the RECs stay with the generator. Secondly, that REC market has to be robust so it generates enough revenues to adequately offset higher fuel costs.

Our power plants employ more than 120 Michigan citizens and 1000 more indirect jobs related to fuel processing, handling and transportation. They pump more than \$40 million a year in to rural, often depressed economies, and are often the community's largest employer and taxpayer.

Michigan needs an RPS because more renewable energy is important to energy independence, affordability and reliability, and for the jobs it will create. However, it's vital that the RPS promotes a new energy marketplace that doesn't jeopardize the jobs and communities that have been doing this for nearly 20 years without the benefit of specific state policy.

Thank you for listening.